RESPONSE TO THE AUDITOR GENERAL

Table of Contents

Response to the Auditor General 147
Expanding the Government's Consolidated Reporting
Entity for Financial Statement Purposes 157

106-04350/

Response to the Auditor General

Every year the Auditor General prepares an annual report on the scope and findings of the work carried out by the Office of the Auditor General. The following are the numbered recommendations in the Auditor General's 2004-05 Annual Report and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Cross-Ministry	
1. Recruiting, evaluating and training boards of directors	
We recommend that the Deputy Minister of Executive Council update Alberta public sector governance principles and guidance so that they are consistent with current good practices for recruiting, evaluating and training directors.	Accepted. The Deputy Minister of Executive Council will work with other Deputy Ministers to review governance principles and provide guidance to governing boards. The Public Service Commissioner's Directive on Recruitment for Agencies, Boards and Commissions will be reviewed and updated in 2006-07.
2. Recruiting, evaluating and training boards of directors	
We recommend that the guidance include a statement that governing boards evaluate and report publicly their own performance against both Alberta public sector principles and their own board governance policies.	Accepted. Guidance to governing boards will include advice on reporting board performance.
3. Internal audit departments	
We recommend that the Deputy Minister of Executive Council provide audit committees with guidance for overseeing internal audit departments, including identifying related training.	Accepted. Guidance for overseeing internal audit departments will be provided.
4. Targets for Societal Measures	
We recommend that the Department of Finance develop guidance relating to the purpose, definition and use of societal measures.	Accepted. The Ministry of Finance will develop guidance related to the purpose, definition and use of societal measures in government and ministry business plans.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Seniors Care and Programs	
5. Developing and maintaining standards We recommend that the Department of Health and Wellness, working with the Regional Health Authorities and the Department of Seniors and Community Supports, update the Basic Service Standards for services in long-term care facilities and implement a system to regularly review and update the Basic Service Standards to ensure they remain current. (Report of the Auditor General on Seniors Care and Programs, No. 1 - page 29)	Accepted. Standards for accommodation and health services provided in continuing care (including long-term care facilities) have been drafted and were part of the MLA Task Force consultations that took place between June and September 2005. The standards were revised based on feedback received during the consultations. The Task Force submitted its final draft standards recommendations to Seniors and Community Supports and Health and Wellness in December 2005 with planned implementation of the standards beginning in 2006-07. A review system will be created to ensure the standards are regularly updated.
6. Compliance with Basic Service Standards We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, improve the systems for monitoring the compliance of long-term care facilities with the Basic Service Standards. (Report of the Auditor General on Seniors Care and Programs, No. 2 - page 31)	Accepted. Health and Wellness, Regional Health Authorities and Seniors and Community Supports to establish effective, coordinated mechanisms for monitoring compliance with health service and accommodation standards in long-term care facilities. This process includes reviewing the roles, legislation and policies of the Health Facilities Review Committee and the Protection for Persons in Care Office. In addition, Health and Wellness, through the 2006-09 three-year health plan process, will require all Regional Health Authorities to have a monitoring and performance audit system to measure the compliance of long-term care facilities to the Continuing Care Health Service Standards.
7. Effectiveness of services in long-term care facilities We recommend that the Department of Health and Wellness and the Regional Health Authorities, working with the Department of Seniors and Community Supports, assess the effectiveness of services in long-term care facilities. (Report of the Auditor General on Seniors Care and Programs, No. 3 - page 34)	Accepted. Health and Wellness and Regional Health Authorities, with support from Seniors and Community Supports, will implement the Inter*RAI* system in long-term care facilities. Health and Wellness began initial implementation of the Inter*RAI* system in April 2005 with expected completion by 2007.
8. Effectiveness of services in long-term care facilities We recommend that the Department of Health and Wellness, working with the Department of Seniors and Community Supports, collect sufficient information about facility costs from the Regional Health Authorities and long-term care facilities to make accommodation rate and funding decisions. (Report of the Auditor General on Seniors Care and Programs, No. 4 - page 35)	Accepted. A mechanism to monitor costs associated with the provision of long-term care accommodation services has been developed by Seniors and Community Supports. Operator expenditure patterns for the 2004-05 fiscal year are being reviewed and based on the results of the analysis, recommendations will be made for a rate adjustment. A revised template for a financial reporting system will be developed in a phased-in approach by Health and Wellness, with the target date for the first phase of implementation in 2006-07.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
9. Determining future needs for services in long-term care facilities	
We recommend that the Department of Health and Wellness, working with Regional Health Authorities and the Department of Seniors and Community Supports, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommend that the Departments publicly report on progress made towards goals in the plan. (Report of the Auditor General on Seniors Care and Programs, No. 5 - page 39)	Accepted. Health and Wellness and Regional Health Authorities, with support from Seniors and Community Supports, to develop a long-term plan to meet future service needs in long-term care facilities. This will be achieved by Health and Wellness leading the development of a Health Policy Framework and a Health System Service Plan in 2006. Progress made towards the goals in the plan will be reported publicly.
10. Standards for services in assisted living and other supportive living settings	
We recommend that the Department of Health and Wellness and the Department of Seniors and Community Supports establish standards for care and housing services provided in assisted living and other supportive living settings. (Report of the Auditor General on Seniors Care and Programs, No.6 - page 45)	Accepted. Standards for accommodation and publicly funded health services provided in supportive living facilities, including seniors lodges, have been drafted and were part of the MLA Task Force consultations that took place between June and September 2005. The standards were revised based on feedback received during the consultations. The Task Force submitted its final draft standards recommendations to Seniors and Community Supports and Health and Wellness in December 2005 with planned implementation of the standards beginning in 2006-07.
11. Developing and monitoring standards for the Seniors Lodge Program	
We recommend that the Department of Seniors and Community Supports: 1. update the Seniors Lodge Standards and implement a process to maintain them, and	Accepted. The Seniors Lodge Standards have been incorporated into the *Alberta Continuing Care Health Service and Accommodation Standards*. To test the standards, this Ministry is currently conducting surveys in 30 lodges. A process will be implemented to keep standards current.
2. improve its systems to monitor management bodies' compliance with the Seniors Lodge Standards. (Report of the Auditor General on Seniors Care and Programs, No. 7 - page 48)	A process for monitoring management bodies' compliance with the standards will be implemented in 2006-07.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
12. Effectiveness of Seniors Lodge Program	
We recommend that the Department of Seniors and Community Supports: 1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program, and	Accepted in principle. The Ministry will continue to monitor whether lodges are serving primarily low and moderate-income seniors. Lodge surveys will continue to be used to measure the effectiveness of the Senior Citizens Lodge Program in providing quality services.
2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges. (Report of the Auditor General on Seniors Care and Programs, No. 8 - page 49)	The Ministry will continue to obtain information periodically to adjust, if necessary, the minimum disposable income of seniors used as a basis for seniors lodge rates.
13. Information to determine program benefits	
We recommend that the Department of Seniors and Community Supports obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the Alberta Seniors Benefit Program. (Report of the Auditor General on Seniors Care and Programs, No. 9 -page 56)	Accepted. In 2006-07 Seniors and Community Supports will look to improve and develop senior specific model(s) and datasets to better identify seniors' financial needs and aid in the decision making process.
Sustainable Resource and Environmental Management (SREM)	
14. SREM implementation plan	
We recommend that the Deputy Ministers of Energy, Environment, and Sustainable Resource Development, with the help of the Sustainable Resource and Environmental Management (SREM) Project Office: • publish a SREM implementation plan with projects, deliverables and deadlines, together with responsibilities and costs, and • report annually to the Standing Policy Committee on their progress in implementing the SREM strategy envisaged in *Alberta's Commitment to Sustainable Resource and Environmental Management.*	Accepted in principle. The Sustainable Resource and Environmental Management (SREM) activities of the three ministries will be identified in the business plans of the ministries. The business plans are reviewed on an annual basis by Standing Policy Committee.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Advanced Education	
15. Designating programs as eligible	
We recommend that the Department of Advanced Education: • consistently use graduation and employment data, along with loan relief benefit grant (LRB grant) repayments, in assessing which programs will continue to be eligible for student funding, and	Accepted. The Ministry agrees that expanding the use of existing data (such as graduate, employment and grant repayments) could improve the assessment of programs and the related eligibility for student funding. In 2005-06, the Ministry will investigate opportunities to expand the use of existing data.
• test the reliability of student graduation and employment data from private institutions with students who have student loans.	The Ministry will expand testing of the reliability of student graduation and employment data for private institutions in 2005-06.
16. Departmental compliance tests	
We recommend that the Department of Advanced Education: • test and evaluate the risk of issuing excessive loans and LRB grants because of invalid student eligibility information, and • automate the process it uses to determine whether income variances are due to Department grants.	Accepted. In 2005-06, the Ministry will review and determine where gaps exist and where business processes can be made more effective and efficient. This will include expanded testing of eligibility data and evaluating opportunities to automate processes.
17. Public post-secondary institutions purchasing	
We recommend that the Department of Advanced Education work with post-secondary institutions to find opportunities to purchase goods and services at better prices.	Accepted. Under certain circumstances it may be appropriate for institutions to pursue collective purchasing and the Ministry will, where appropriate, advocate this by encouraging the institutions and other government departments to share information regarding procurement.
18. Research roles and responsibilities	
We recommend that the University of Calgary define research management roles and responsibilities.	Accepted. The University of Calgary is now undertaking a review of its Research Services and Research and Trust Accounting areas. As part of the review, it is looking at interactions with other areas and stakeholders, and will develop roles and responsibilities as appropriate.
19. Information technology planning and governance	
We recommend that Athabasca University improve its information technology planning and governance by: • completing the definition of its overall information technology strategy, and preparing and implementing a plan to achieve the strategy, • adopting a formal information technology internal control system framework, • creating an overall steering committee to manage information technology.	Accepted. Athabasca University has appointed a Chief Information Officer and has implemented a project approval policy and project management process. It will take such additional steps as implementing a Technology Governance Framework and University-wide multi-year information technology systems plans to further improve the Information Technology area.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Agriculture, Food and Rural Development	
20. Grant management system We again recommend that the Department of Agriculture, Food and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs. (2000-2001 - No. 3)	Accepted. Although discussions have taken place regarding the performance and related program adjustments for grant programs, it is evident that discussions have not been documented to validate that the intended outcomes are being effectively managed. Appropriate resources will be allocated to implement processes that will demonstrate full implementation of the recommendation.
21. Awarding Beginning Farmer Loans We recommend that the Agriculture Financial Services Corporation: • clearly define eligibility criteria for the Beginning Farmer Loans program. • document its evaluation of the loan applicant against the program eligibility criteria. • analyze the borrower's financial condition before approving the loan in accordance with its procedures. • monitor accounts in arrears in accordance with its procedures. • complete an analysis to support the level of program fees charged. • monitor and evaluate the borrower against the eligibility criteria required to earn the interest rate discount.	Accepted. Following a review of the objectives of the program, policies regarding loan eligibility and incentives will be reviewed and redefined as required to ensure that the criteria are clear, measurable and can be applied consistently. Criteria will be developed to establish the basis on which loan fees are determined as well as how they compare to the lending industry. Procedural improvements will be made to ensure that evaluation and analysis of borrowers' repayment capacity is undertaken and properly documented and to ensure that the level of file administration and documentation is appropriate for security valuation and monitoring and follow-up of delinquencies.
22. Managing the Beginning Farmer Loans program We recommend the Agriculture Financial Services Corporation: • develop a human resource plan for lending that identifies the staff and skills required to deliver farm lending programs. • develop measures to assess whether the objectives of the Beginning Farmer Loans program are being met. • monitor the operational plan against the results achieved and report on those results.	Accepted. Under a restructuring plan currently in progress, all lending staff will become knowledgeable and responsible for delivery of all of Agriculture Financial Services Corporation's (AFSC) farm and commercial loan products. The required experience and skill sets of staff will be determined and the appropriate staff numbers defined and implemented. Once the objectives of the program are reviewed and redefined, AFSC will develop measures to assess whether the objectives of the program are being met. Monitoring achieved results against the lending tactical plan on a quarterly basis is now documented.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
23. Administering the Canadian Agriculture Income Stabilization program	
We recommend the Agriculture Financial Services Corporation improve controls over the administration of the Canadian Agricultural Income Stabilization program by: • documenting its policies and procedures. • strengthening its claim verification procedures. • maintaining sufficient documentation on file. • developing criteria for waiving the application of the structural change. • developing criteria to identify high-risk participants. • testing spreadsheets before implementing them.	Accepted. Agriculture Financial Services Corporation (AFSC) is currently reviewing each of the recommendations to update the procedures, policies, claim verification, inventory pricing and approvals to improve consistency and internal controls to ensure claims are processed accurately and completely. The program compliance and investigations area is also being strengthened to better identify and deal with high-risk clients for all programs administered by AFSC. For future provincial and national changes to the Canadian Agricultural Income Stabilization program, AFSC will complete detailed analyses to determine their impact before the changes are implemented.
Children's Services	
24. Contract approvals	
We recommend that the Ministry of Children's Services sign contracts (whether new or renewal) before contractors supply goods or services.	Accepted. In April 2005, the Ministry approved a new contract policy that requires all contracts to be signed prior to the commencement of services, or where a contract is to be renewed, the renewal must be signed by all parties prior to the effective date of the renewal. The Ministry has also drafted a Contract Policy and Procedures Manual and is working on a Contract Management training program to be delivered to all staff involved in the contracting process.
25. First Nation expense recoveries	
We again recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve. (2001-2002 - No. 7)	Accepted. The Ministry has taken a number of steps to address the segregation of duties and reconciliation issues raised in the Auditor General's report. A project is also underway to identify improvements to the existing practices for handling both on- and off-reserve billings. In addition, the Ministry continues to pursue Billing Procedures and Protocol Addendums to the Agreements with the Delegated First Nations Agencies, and to address the funding formula for administration costs with the federal government.
Community Development	
26. Wild Rose grants to Applewood	
We recommend that The Wild Rose Foundation review the results of our audit into the grants to Applewood Community Association and take appropriate action.	Accepted. The Wild Rose Foundation Board is seeking recovery of the third grant of $20,000 in accordance with section 4 of the Wild Rose Foundation Regulation. The Foundation is also tightening the grant application, guidelines and accountability report requirements for the International Development program.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Education	
27. Savings generated by Learning Resources Centre We recommend that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre and identify opportunities for additional savings.	Accepted. Although the Ministry completes individual initiative evaluations, an overall evaluation report will be completed in 2006-07 to quantify all cost savings realized by the Centre and identify areas for further savings. This initial report will cover all cost saving initiatives to date, with subsequent reports every three to five years to provide updates.
Energy	
28. Assurance on well and production data We recommend the Department of Energy: • complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data, and • communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.	Accepted. The Ministry continues to work with the Production Audit Team from the Alberta Energy and Utilities Board in an effort to resolve the issues. Upon receipt of a copy of the Production Audit Team's 2004-2005 annual report, the Ministry will be in a position to quantify the volumetric reconciliation exceptions, the status of volumetric discrepancies, and then rationalize volume audits to volumetric balancing. With this information, the Ministry will conduct a risk assessment.
29. Assurance systems for volumetric accuracy We recommend that the Alberta Energy and Utilities Board explore ways to strengthen controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.	Accepted. The Alberta Energy and Utilities Board (EUB) will explore ways of improving controls for volumetric data accuracy by verifying roles and responsibilities with the Ministry and assessing the effectiveness of existing control systems. Effective January 1, 2006, enforcement of EUB measurement requirements will be in accordance with the recently updated Directive 019 *EUB Compliance Assurance - Enforcement.*
30. Liability Management for Suspension, Abandonment and Reclamation Activities We recommend that the Alberta Energy and Utilities Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.	Accepted. The Alberta Energy and Utilities Board (EUB) intends to enhance its reporting capabilities respecting licence life cycle information to produce summary reports to track how long wells and facilities have been inactive. The EUB will also contact other government agencies to determine how their requirements effect industry decisions to retain inactive wells, facilities and pipelines. The EUB will initiate discussions with industry this fiscal year on this issue with a view to reducing the number of inactive licences.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Environment	
31. Financial security for land disturbances We recommend that the Ministry of Environment implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates. (1998-1999 - No. 30)	Accepted. Progress is being made, however, the information gathering process is involved and complex due to the nature of the issues being addressed. It is anticipated that the stakeholder consultation process will be equally complex. The Ministry plans to continue to work with other ministries in developing a risk-focused asset to liability model to calculate the security needed in the mining and oil and gas sectors.
Finance	
32. ATB Lending policy compliance We again recommend that Alberta Treasury Branches ensure its lending officers comply with corporate lending policies. (2002-2003 - No. 15)	Accepted. Alberta Treasury Branches (ATB) has taken a number of steps this year to address this issue including initiating an in-depth lending policy review; benchmarking business lending policies and procedures to industry requirements; amending policy to industry standard on when business borrowers are required to report back to ATB; reviewing, adjusting and clarifying lenders' lending limits; applying technology to the process of authorizing loans; and implementing a checklist to ensure loan applications are correctly filled out in the branches. In addition, this area is a key focus in ATB's current business plan.
33. ATB Branch operations compliance We again recommend that Alberta Treasury Branches ensure branch processes comply with corporate policies and procedures. (1999-2000 - No. 49)	Accepted. Alberta Treasury Branches (ATB) has a comprehensive and wide-ranging strategy in place to address this issue as part of its current business plan. ATB has significantly reorganized its resources, including the creation of a new compliance team and placing renewed emphasis on training, to enable the implementation of the strategy. In addition, ATB is conducting an in-depth review of operational policies and procedures which is targeted for completion by November 2006.
Government Services	
34. Implementation of project management framework We recommend that the Ministry of Government Services implement the recommendations of the Office of the Chief Internal Auditor on improving the planning and monitoring processes for the Registry Renewal Initiative.	Accepted. The Ministry will prepare a renewed comprehensive Initiative Plan in 2006 that will identify critical milestones, cross-project influences, and measurable deliverables. The Ministry will provide more comprehensive reports to Ministry Executive, including information on expected deliverables, timelines, costs compared to plans, and reasons for and impact of significant variances.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Infrastructure and Transportation	
35. Air Transportation program assessment We recommend that the Department of Infrastructure and Transportation complete and maintain a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objectives, user needs, and use policies.	Accepted. The Ministry will complete a program assessment that includes an analysis of its aircraft fleet's use and an overall cost-benefit analysis of the program to ensure that program operations are aligned with program objective, user needs, and use policies in fiscal year 2005-06. Periodic reviews will be conducted.
36. Air Transportation public reporting We recommend that the Department of Infrastructure and Transportation publicly report fleet use details permitted to be disclosed by the *Freedom of Information and Privacy Act*.	Accepted. The Ministry has already made changes in this area and will be providing access to flight manifests to Albertans in fiscal year 2005-06.
Restructuring and Government Efficiency	
37. Performance measures We again recommend that the Ministry of Restructuring and Government Efficiency: • clearly define its performance measures and targets, and • develop systems to monitor and report results. (2001-2002 - No. 22, 2002-2003 - No. 20)	Accepted. Management will continue to improve performance measures and the associated performance measurement tracking and reporting systems. Work will be undertaken to ensure clear alignment between performance measures and the components of the business plan.

Expanding the Government's Consolidated Reporting Entity for Financial Statement Purposes

Financial Management Commission Recommendation

In the 2002 Financial Management Commission's report, *Moving from Good to Great*, the Commission recommended that:

"The Government should continue to work with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants in the development of the government entity reporting proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded."

The government accepted the recommendation in principle, pending PSAB recommendations.

Public Sector Accounting Board Standards (PSAB)

In 2004, PSAB released a new accounting standard that requires "controlled" entities to be included in the government reporting entity effective April 1, 2005. Control is defined as "the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities".

Controlled entities may be included in consolidated financial statements on a modified equity basis until March 31, 2008 and on a line-by-line basis thereafter. Under the modified equity approach, the aggregated net assets and net income of these controlled entities are recorded in the consolidated financial statements instead of all the details required under line-by-line.

Current Status

To comply with the new PSAB standard, the government would have to include schools, universities, colleges, and health authorities (SUCH sector) in its consolidated financial statements, if it is determined that control exists. The government is currently reviewing whether control exists over any of the SUCH sector and the related technical issues (e.g., differing year ends). For SUCH sector entities, where control exists, information on a modified equity basis is planned to be included in the government's 2005-06 annual report.